



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
GRAVES COUNTY CLERK**

Calendar Year 1999

**EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY

GRAVES COUNTY BARRY M. KENNEMORE, COUNTY CLERK CALENDAR YEAR 1999 FEE AUDIT

On May 17, 2000, fieldwork was completed on the Graves County Clerk's 1999 fee audit. An unqualified opinion was issued on the statement of receipts, disbursements, and excess fees.

Fee Account Financial Condition:

Graves County Clerk had adequate funds to pay all 1999 fee obligations.

Excess Fees:

The County Clerk paid Graves County Fiscal Court \$295,573 for 1999 excess fees.

Deposits:

On April 15, 1999, the County Clerk's deposits were uninsured and uncollateralized by \$109,280.

Major Improvements:

The County Clerk has improved recordkeeping and accountability within his office:

- Issued Pre-Numbered Receipts For All Income
- Properly Accounting For Account Receivables And Preparing A List Of Receivables As Of December 31, 1999
- Made Deposits Daily And Intact
- Improved Internal Controls By Separating The Cash Functions From The Bookkeeping And Reconciliation Functions
- Computerized The Fee Account Bookkeeping Records
- Required Time Records For All Employees Which Lists Hours Worked, Sick Leave, And Vacation Days Used

Other Information:

- Employee Retirement System includes nonhazardous duty employees.
- Microfilm Grant of \$9,870 received, but not expended in 1999.
- County Clerk has a Condemnation Account being held in a certificate of deposit - \$1,200.
- Pending Lawsuit – Former County Clerk owes county excess fees of \$31,548 for 1993 and 1994. Former Clerk has a counterclaim against the county for \$70,820.

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Edward B. Hatchett, Jr.
Auditor of Public Accounts

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable Tony Smith, Graves County Judge/Executive
Honorable Barry M. Kennemore, Graves County Clerk
Members of the Graves County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Clerk of Graves County, Kentucky, for the year ended December 31, 1999. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office is required to prepare the financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. This cash basis system does not require the maintenance of a general fixed asset group or general long-term debt group of accounts. Accordingly, the accompanying financial statement is not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Clerk for the year ended December 31, 1999, in conformity with the basis of accounting described above.

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable Tony Smith, Graves County Judge/Executive
Honorable Barry M. Kennemore, Graves County Clerk
Members of the Graves County Fiscal Court

Based on the results of our audit, we have presented a comment and recommendation, included herein, which discusses the following area of noncompliance:

- The County Clerk Should Have Required Depository Institutions To Pledge Additional Securities Of \$109,280 As Collateral To Protect Deposits

Best Practices:

We wish to commend Graves County Clerk Barry M. Kennemore for initiating the following practices:

- Issued Pre-Numbered Receipts For All Income
- Properly Accounting For Account Receivables And Preparing A List Of Receivables As Of December 31, 1999
- Made Deposits Daily And Intact
- Improved Internal Controls By Separating The Cash Functions From The Bookkeeping And Reconciliation Functions
- Computerized The Fee Account Bookkeeping Records
- Required Time Records For All Employees Which Lists Hours Worked, Sick Leave, And Vacation Days Used

In accordance with Government Auditing Standards, we have also issued a report dated May 17, 2000, on our consideration of the County Clerk's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
May 17, 2000

GRAVES COUNTY
BARRY M. KENNEMORE, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 1999

Receipts

State Fees For Services	\$	14,871
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Fiscal Court		22,997
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	789,797
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Usage Tax		3,611,953
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Tangible Personal Property Tax		1,868,033
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Title Fees		85,931
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Licenses-

Fish and Game		7,133
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Marriage		12,220
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Occupational		1,235
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Deed Transfer Tax		56,122
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Delinquent Tax		233,491
		6,665,915

Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts	\$	20,711
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Real Estate Mortgages		42,078
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Chattel Mortgages and Financing Statements		146,724
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Powers of Attorney		1,684
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All Other Recordings		25,772
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Charges for Other Services-

Postage		17,507
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Copywork		10,342
		264,818

Other:

Miscellaneous		988
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Interest Earned		8,957
		8,957

Gross Receipts (Carried Forward)	\$	6,978,546
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GRAVES COUNTY
 BARRY M. KENNEMORE, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 1999
 (Continued)

Gross Receipts (Brought Forward) \$ 6,978,546

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 668,838	
Usage Tax	3,496,923	
Tangible Personal Property Tax	743,624	

Licenses-

Fish and Game	6,925	
Delinquent Tax	49,862	
Legal Process Tax	36,978	\$ 5,003,150

Payments to Fiscal Court:

Tangible Personal Property Tax	\$ 162,438	
Delinquent Tax	35,441	
Deed Transfer Tax	53,316	
Occupational Licenses	1,168	252,363

Payments to Other Districts:

Tangible Personal Property Tax	\$ 889,491	
Delinquent Tax	84,011	973,502

Payments to Sheriff 7,954

Payments to County Attorney 35,221

Operating Disbursements and Capital Outlay:

Personnel Services-	
Deputies Salaries	\$ 270,570
Employee Benefits-	
Employer's Share Social Security	23,493
Contracted Services-	
Preparing Tax Bills	7,947
Materials and Supplies-	
Office Supplies	710

GRAVES COUNTY
 BARRY M. KENNEMORE, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 1999
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay: (Continued)

Other Charges-			
Conventions and Travel	\$	4,169	
Dues		1,050	
Postage		9,801	
Election Expenses		667	
Insurance		1,715	
Uncollected Returned Check		188	
Refunds		17,922	
Miscellaneous		460	
Capital Outlay-			
Office Equipment		<u>7,975</u>	<u>\$ 346,667</u>
Total Disbursements			<u>\$ 6,618,857</u>
Net Receipts			\$ 359,689
Less: Statutory Maximum		59,828	
Training Allowance		<u>688</u>	<u>60,516</u>
Excess Fees			\$ 299,173
Less: Expense Allowance			<u>3,600</u>
Excess Fees Due County for Calendar Year 1998			\$ 295,573
Payments to County Treasurer:			
February 14, 2000	\$	285,000	
March 9, 2000		6,654	
March 9, 2000		<u>3,919</u>	<u>295,573</u>
Balance Due at Completion of Audit			<u><u>\$ 0</u></u>

The accompanying notes are an integral part of the financial statement.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 1999

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting pursuant to KRS 68.210 as recommended by the State Local Finance Officer. Revenues and related assets are generally recognized when received rather than when earned. Certain expenses are recognized when paid rather than when a liability is incurred, including capital asset purchases. Certain other expenses are recognized when a revenue and the related asset can be associated with a corresponding liability due another governmental entity.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent.

GRAVES COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 1999
 (Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The County Clerk entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of April 5, 1999, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$109,280 of public funds uninsured and unsecured.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of April 5, 1999.

	<u>Bank Balance</u>
Collateralized with securities held by the county official's agent in the county official's name	\$ 400,000
Uncollateralized and uninsured	<u>109,280</u>
Total	<u><u>\$ 509,280</u></u>

Note 4. Grant

The County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$9,870. There were no funds expended during calendar year 1999. The unexpended grant balance is \$9,870 as of December 31, 1999.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 1999
(Continued)

Note 5. Land Condemnation Account

The Graves County Clerk maintains a certificate of Deposit with First Kentucky Bank titled *Land Condemnation Account*. Interest is paid by check to the County Clerk's office and is deposited into the fee account quarterly. The balance of this certificate of deposit was \$1,200 as of December 31, 1999.

Note 6. Pending Lawsuit

A lawsuit styled Graves County Fiscal Court vs. Glen Bruce, former Graves County Clerk, Case 98-CI-331, is currently pending in Graves County Circuit Court. It concerns \$15,857 of expenditures disallowed in the 1993 and 1994 calendar year audits of the former Graves County Clerk. The excess fees reported and due to the county in 1993 and 1994 audits totaled \$31,548. The former Graves County Clerk, Glen Bruce has a counterclaim against Graves County for \$70,820 which is also still pending.

COMMENT AND RECOMMENDATION

GRAVES COUNTY
BARRY M. KENNEMORE, COUNTY CLERK
COMMENT AND RECOMMENDATION

Calendar Year 1999

The County Clerk Should Have Required Depository Institutions To Pledge Additional Securities
Of \$109,280 As Collateral To Protect Deposits

On April 5, 1999, \$109,280 of the County Clerk's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the County Clerk require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Clerk's Response:

In process of correcting.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Honorable Tony Smith, Graves County Judge/Executive
Honorable Barry M. Kennemore, Graves County Clerk
Members of the Graves County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Graves County Clerk's financial statement as of December 31, 1999, and have issued our report thereon dated May 17, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Graves County Clerk's financial statement as of December 31, 1999, is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Graves County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Honorable Tony Smith, Graves County Judge/Executive
Honorable Barry M. Kennemore, Graves County Clerk
Members of the Graves County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
May 17, 2000

